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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WASTEWATER RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE.	DOCKET NO: SW-01428A-13-0042 Arizona Corporation Commission DOCKETED DEC 05 2013 DOCKETED BY
IN THE MATTER OF THE APPLICATION OF LITCHFIELD PARK SERVICE COMPANY, AN ARIZONA CORPORATION FOR A DETERMINATION OF THE FAIR VALUE OF ITS UTILITY PLANTS AND PROPERTY AND FOR INCREASES IN ITS WATER RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE.	DOCKET NO: W-01427A-13-0043 **NOTICE OF FILING WITNESS SUMMARIES**

Liberty Utilities (Litchfield Park Water & Sewer) Corp. ("Company") hereby submits the following witness summaries:

1. Christopher D. Krygier;
2. Thomas J. Bourassa (Rate Base); and
3. Greg Sorensen.

The Company's Cost of Capital witnesses, Thomas J. Bourassa and Wendell Licon, PhD, CFA, are not scheduled to testify until Wednesday, December 11, 2013. Accordingly, their summaries will be filed no later than Monday, December 9.

RESPECTFULLY SUBMITTED this 5th day of December, 2013.

FENNEMORE CRAIG, P.C.

By: ______________________
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(Litchfield Park Water & Sewer) Corp.

ORIGINAL and 13 copies filed
this 5th day of December, 2013, with:

Docket Control
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Phoenix, Arizona 85007

COPY hand-delivered
this 5th day of December, 2013 to:

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CHRISTOPHER D. KRYGIER

Summary of Pre-Filed Testimony

Liberty Utilities (Litchfield Park Water & Sewer) Corp.
SW-01428A-13-0042, W-01427A-13-0043

Christopher D. Krygier--Summary of Prefiled Testimony

Mr. Krygier submitted pre-filed Direct Testimony, Rebuttal Testimony and Rejoinder Testimony in this case. Summaries of Mr. Krygier's pre-filed testimonies are set forth below.

I. BACKGROUND

Mr. Krygier is employed by Liberty Utilities ("Liberty") as the Utility Rates and Regulatory Manager. Liberty is the parent company of what is now known as Liberty Utilities (Litchfield Park Water & Sewer) Corp. ("LPSCO" or "Company"). Liberty manages and operates water and sewer utilities in Arizona, Texas, Missouri, Arkansas and Illinois. Mr. Krygier is responsible for the water and wastewater rate cases and public utility regulation in Arizona, Texas, Missouri and Arkansas.

Mr. Krygier was responsible for overseeing all of the rate case preparation efforts and working with Staff and RUCO throughout the case. As seen throughout the parties' testimonies, Staff, RUCO and the Company have worked together to eliminate nearly all rate base and operating income issues in dispute between the parties. The Liberty rates team expresses our appreciation of the efforts made by Staff and RUCO.

II. DIRECT TESTIMONY

A. Rate Gradualism

In his direct testimony, Mr. Krygier introduces and discusses four separate policy proposals submitted by LPSCO in this rate case: (1) the Distribution System Improvement Charge ("DSIC") and Collection System Improvement Charge ("CSIC"); (2) the Purchased Power Adjustor Mechanism ("PPAM"); (3) the Property Tax Accounting Deferral proposal; and (4) the Balanced Rate Design proposal.

In his direct testimony, Mr. Krygier explains that those four proposals are premised on rate gradualism as a principle of sound ratemaking for utilities based on the importance of price stability and avoidance of "rate shock" to customers. Mr. Krygier demonstrates that rate gradualism will benefit customers and utilities through small incremental increases in utility rates rather periodic but large increases in rates. Equally as critical, Mr. Krygier highlights a 2012 poll of Arizona utility customers showing that over 89 percent of customers prefer smaller, more frequent rate increases instead of larger, less frequent rate increases.

B. The DSIC and CSIC Proposals

The Distribution System Improvement Charge, or DSIC, is a surcharge mechanism that promotes rate gradualism by encouraging utilities to replace water infrastructure. The Collection System Improvement Charge, or CSIC, is the wastewater version. Mr. Krygier explains that DSICs are surcharges designed to ensure the least possible rate impact on customers by gradually spreading out rate increases attributable to those infrastructure costs. Here, LPSCO will require substantial capital improvements in the near future, primarily concentrated around pipe replacements. Specifically, LPSCO anticipates over $25M of improvements needed to ensure continued system reliability, in turn necessitating substantial future rate increases.

In turn, Mr. Krygier demonstrates that customers would derive tremendous benefits from Commission approval of a DSIC-like mechanism for LPSCO. The most important benefit is that the DSIC promotes rate gradualism and prevents customer rate shock. DSICs also decrease the frequency of rate cases, the costs of which are largely borne by customers. Customers benefit from the reduced chance of system outages caused by aging mains and pipes. DSICs maintain system reliability by replacing the oldest infrastructure in the water/sewer system sooner. Mr. Krygier also explains that DSICs will benefit the Commission by reducing complexity of rate cases.

C. The Property Tax Accounting Deferral Proposal

Mr. Krygier also proposes a regulatory asset or liability to recover or refund property tax rates that are greater than property tax rates experienced in the test year. Mr. Krygier explains that such proposal is necessary because LPSCO's property taxes have increased significantly in LPSCO's test year versus the prior test year. Mr. Krygier demonstrates that property tax accounting deferral is good policy and serves the public interest because it gives a utility an opportunity to recover its cost of service while protecting customers against more frequent rate cases resulting from tax increases.

For LPSCO, Mr. Krygier proposes that LPSCO be allowed to defer for future recovery the amounts of Arizona property tax expense above or below the test year levels ultimately authorized in this case. In LPSCO's next rate case, LPSCO would then propose an amortization period to recover or refund the amount of property tax deferral that exists at the time of that rate case filing. Naturally, Staff and parties to future rate case would have the right to review the property tax deferrals.

D. The Purchased Power Adjustment Mechanism

The PPAM is another regulatory tool that furthers rate gradualism. Mr. Krygier explains that it is designed to ensure that utilities have an opportunity to recover the cost of purchased power in rates. Like the other policy proposals, the PPAM benefits customers by gradually increasing rates as power costs increase rather than piling up large dollar increases and seeking recovery of all costs at once. Mr. Krygier's testimony demonstrates the public benefits and fairness of the PPAM for LPSCO.

E. Balanced Rate Design

In his testimony, Mr. Krygier proposes that the Commission adopt a balanced rate design to benefit customers and the Company while ultimately achieving rate gradualism. Specifically, Mr. Krygier demonstrates the benefits of a rate design that strikes a fair balance between water conservation and revenue stability. Towards that end, LPSCO asks that the Commission adopt a fixed charge of approximately 50 percent of the revenue requirement, with the remaining revenue being spread in a more balanced manner across the rate tiers. Mr. Krygier's testimony shows the benefits of that proposal.

II. REBUTTAL AND REJOINDER TESTIMONY

In his rebuttal and rejoinder testimonies, Mr. Krygier responds to arguments and testimony submitted by Staff and RUCO relating to rate base adjustments, operating income adjustments, policy proposals and other recommendations.

A. Rate Bate and Operating Income Adjustments

1. Staff's Rate Base Adjustment No. 1

In rebuttal, Mr. Krygier addresses Staff's proposed Rate Base Adjustment No. 1 to disallow $700,000 of plant relating to an equalization basin for the Palm Valley Water Reclamation Facility (PVWRF) as not being in service. Mr. Krygier explains that the equalization basin is post-test year plant that is currently in service and, therefore, should be included in rate case. In rejoinder, Mr. Krygier adds that Staff Engineer Mr. Hains inspected the plant on November 7, 2013 and confirmed that the equalization basin is in service. He also clarified that the final project cost for the equalization basin project is $1,102,722 with associated retirements of $38,424 that should be included in rate base.

2. RUCO's Adjustment No. 3—Declining Usage Adjustment

In its Operating Income Adjustment No. 3, RUCO proposes to deny the Declining Usage Adjustment supported by Staff and LPSCO. In rebuttal, Mr. Krygier explains that RUCO's (Mr. Mease) justification for such denial is not credible and demonstrates that a declining usage adjustment is reasonable and necessary as previously approved by the Commission in Decision No. 74081. As explained by Mr. Krygier, reduced water usage from conservation oriented rates results in reduced revenues for LPSCO, in turn causing the Company to not collect the amount of revenue it was authorized. As such, Mr. Krygier demonstrates that approving a declining usage adjustment is necessary because it allows the Commission to promote conservation and offer LPSCO a fair opportunity to recover its cost of service and revenue requirement. Mr. Krygier's rejoinder testimony further demonstrates that RUCO's disallowance on this issue should be rejected and that the Declining Usage Adjustment should be approved as recommended by Staff and LPSCO. Finally, as stated by Mr. Krygier's rebuttal, LPSCO will agree to the customer safeguards outlined in Decision No. 74081.

3. <u>RUCO's Adjustment No. 8—Employee Pension Benefit Costs</u>

In Operating Income Adjustment No. 8, RUCO proposes to disallow $62,199 (water) and $76,431(sewer) of employee pension benefit costs for LPSCO. RUCO claims that those pension costs were not funded during the test year and that LPSCO is not obligated to fund those costs. In rebuttal, Mr. Krygier explains that those pension costs are known and measurable and, thus, should be included as operating costs. In rejoinder, Mr. Krygier establishes that those pension costs have been incurred and paid by LPSCO and that RUCO has agreed to withdraw its disallowance subject to proof of payment. LPSCO will provide that proof at hearing or with its closing briefs.

4. <u>RUCO's Adjustment No. 13—APUC Cost Allocations</u>

In its proposed Operating Income Adjustment No. 13, RUCO disallows $115,363 (water) and $115,707 (wastewater) in APUC cost allocations. In rebuttal, Mr. Krygier explains that LPSCO has generally accepted and adopted Staff's proposed corporate cost allocations (with adjustments recommended by Mr. Carlson). He further demonstrates the errors and flaws in RUCO's proposed disallowance.

Mr. Krygier explains that Decision No. 72059 specifically allowed LPSCO to provide additional evidence in future rate cases to support additional corporate cost allocations. Mr. Krygier demonstrates that LPSCO provided persuasive, detailed documentation to support the underlying costs. This is new evidence and support that had not been submitted before in prior rate cases. Mr. Krygier's testimony explains the necessity, legal requirements and customer benefits of costs relating to Unit-holder Communications, Trustee/Director Fees, Escrow/Transfer Agent Fees, Employee Stock Purchase Plans, Stock Option Expenses, Dues & Memberships and Professional Services and that RUCO's disallowances should be rejected.

In its surrebuttal testimony, RUCO then modified its position on these costs and now recommends disallowing 50% of those costs (RUCO's direct testimony proposed a 100% disallowance of those costs). In rejoinder, Mr. Krygier demonstrates that RUCO's modified disallowance of 50% is equally unreasonable and unsupported and that RUCO has failed its burden of proving such disallowances. Boiled down, Mr. Krygier demonstrates that LPSCO has shown clearly that the costs RUCO disallows are necessary for APUC to provide capital to Liberty and its Arizona subsidiaries, including LPSCO.

B. Policy Proposals

1. SIB Proposal

Initially, the Company sought approval of a DSIC and CSIC. At that time, the Commission had not formally approved the System Improvement Benefits (SIB) mechanism for Arizona Water Company (AWC). After approval of the SIB for AWC in Decision No. 73938 (June 27, 2013), LPSCO modified its request to seek approval of a water and wastewater SIB on the same terms as the SIB for AWC.

RUCO, however, opposes any DSIC mechanism, including the SIB. Mr. Krygier addresses and counters each of RUCO's arguments against the SIB in his rebuttal testimony. Mr. Krygier demonstrates that the SIB is an adjuster intended to promote rate gradualism. Mr. Krygier explains that the proposed SIB includes a 100 basis point reduction in the SIB ROE, the most significant customer benefit in the country.

2. The PPAM Proposal

With respect to LPSCO's PPAM proposal, Staff recommends approval of the PPAM subject to two conditions: (1) that the Company provide an annual report on purchased power; and (2) that Staff calculate an annual increase or decrease, and provide a Recommended Opinion and Order for Commission approval within 30 days of the Company's annual report. In rebuttal, Mr. Krygier testifies that both of those conditions are acceptable to the Company.

RUCO, however, opposes the PPAM for several reasons. In rebuttal and rejoinder, Mr. Krygier explains that each of those reasons is unsupported and not persuasive. Contrary to RUCO, Mr. Krygier's rebuttal and rejoinder testimony demonstrates the clear benefits and necessity of a PPAM for LPSCO.

C. Staff's Income Tax Proposal

Staff recommends that LPSCO be required to present a plan to deal with potential deferred income taxes within 60 days of a Commission decision in this case. In rebuttal, Mr. Krygier establishes that the Commission has not imposed a similar requirement on any other company and that there isn't any justification for imposing such requirement on LPSCO. After Staff continued to seek such requirement in surrebuttal testimony, Mr. Krygier's rejoinder testimony demonstrates that such requirement is not fair to LSPCO and would result in improper single issue ratemaking.

THOMAS J. BOURASSA

Summary of
Pre-Filed Testimony
(Rate Base)

Liberty Utilities (Litchfield Park Water & Sewer) Corp.
SW-01428A-13-0042, W-01427A-13-0043

Thomas J. Bourassa --Summary of Prefiled Testimony

Thomas J. Bourassa is a Certified Public Accountant who provides consulting services to public utilities. He has testified on numerous occasions before the Arizona Corporation Commission ("the Commission") on behalf of Arizona water and wastewater utilities. In this case, he is testifying on behalf of Liberty Utilities (Litchfield Park Water & Sewer) Corp. ("the Company") on the topics of the Company's rate base, income statement (i.e., revenue and operating expenses), required increase in revenue and rate design and proposed rates and charges for service.[1]

Overview of the Company's Request Rate Relief

The Company is requesting a gross revenue increase of $1,669,160 for its water division, which is an increase of approximately 14.90 percent over test year (December 31, 2012) revenues, and an increase of $503,628 for its wastewater division, which is an increase of approximately 8.46 percent over test year revenues. The following is a summary of the Company's water and wastewater division revenue requirement:

	Water	Wastewater
Fair Value Rate Base	$33,230,348	$24,153,028
Adjusted Operating Income	$ 2,035,639	$ 1,191,051
Current Rate of Return	6.13%	7.91%
Required Operating Income	$ 3,049,318	$ 2,216,355
Required Rate of Return	9.18%	9.18%
Operating Income Deficiency	$ 1,013,679	$ 305,305
Gross Revenue Conversion Factor	1.6466	1.6496
Increase in Gross Revenues	$ 1,669,160	$ 503,628

For the water division, the Company is proposing an inverted tier rate design to promote conservation and that recognizes a move towards rates which reflect each customer class paying its cost of service. The Company proposed rate design balances the risk of not recovering its revenue requirement with risk of

[1] Mr. Bourassa is also testifying on the cost of capital, including the cost of equity, which testimony is separately summarized.

revenue loss from conservation (revenue stability). Under the Company's water division proposed rates, a typical 3/4 inch metered residential customer would experience an increase of $3.91 (about 16.08 percent), from $24.33 per month to $28.07 per month.

For the wastewater division, the Company is adopting the same rate design approved by the Commission in the Company's prior rate case. Under the Company's wastewater division proposed rates, a typical residential customer would experience an increase of $2.01 (about 5.16 percent), from $38.99 per month to $41.00 per month.

The Company has accepted many of the adjustments proposed by Staff and RUCO in order to reduce disputes and simplify the rate case. The following is a brief summary of the unresolved issues.

Rate Base Issues – Water

1. Accumulated Depreciation (A/D). The Company proposes an A/D balance of $18,927,597. RUCO proposes the same A/D balance. Staff proposes an A/D balance of $18,975,484 which is $47,877 more that the Company. The difference in balances is made up of a difference in 1) the recomputed A/D balance of transportation equipment, 2) the A/D related to the Plant In Service (PIS) true up plant accruals, 3) the A/D related to PIS reclassifications, 4) the A/D related to removal of duplicate invoices from PIS, and 5) the A/D related to PIS added in the wrong years.

2. Accumulated Amortization on Contributions-in-aid of Construction (A.A. CIAC). The Company recommends an A.A. CIAC balance of $1,285,854. RUCO proposes the same balance. Staff proposes an A.A. CIAC balance of $1,296,248, which is $10,394 higher than the Company. Staff has not provided details of its computed A.A. CIAC balance.

3. Customer Meter Deposits. The Company recommends a Customer Meter Deposit balance of $1,271,802. Staff recommends the same balance. RUCO recommends a balance of $1,432,787, which is $160,986 greater than the Company. RUCO's recommended balance is based upon a 13-month average of customer meter deposits. The Company disagrees with RUCO because a 13-month average creates a rate base mismatch.

Rate Base Issues – Wastewater

1. Post-Test Year Plant (PTY Plant). The Company is recommending PTY plant of $1,102,722. RUCO recommends PTY plant of $1,200,000, which is based upon the Company's rebuttal estimate as RUCO did not had a chance to review the final true-up of costs as of its surrebuttal filing. Staff is expected to update its final schedules to reflect that the plant was in-service as of Staff's inspection on November 7, 2013.

2. PTY Plant Related Retirements. The Company recommends retirements related to its proposal to include PTY plant totaling $38,457. RUCO does not recommend any PTY plant related retirements, which was based upon the Company's rebuttal estimate. RUCO did not have a chance to review the final true-up of costs as of its surrebuttal filing. Staff is expected to update its final schedules to reflect that the plant was in-service as of Staff's inspection on November 7, 2013.

3. PIS Reclassification. The Company recommends a plant reclassification that nets to $12,156. RUCO recommends the same plant reclassification. Staff's net plant reclassification adjustment nets to $6,000. Staff fails to include an adjustment to account 380 – Treatment and Disposal Equipment of $6,156, which is recommended by Staff witness Ms. Hains.

4. Accumulated Depreciation (A/D). The Company proposes an A/D balance of $13,548,214. Staff proposes an A/D balance of $13,251,313, which is $296,901 less that the Company. The difference in balances is made up of a difference in 1) the PTY plant related retirements A/D (an error since the Staff does not propose a PTY related retirements to PIS), 2) the PTY plant related A/D (one half year of A/D on PTY plant), 3) the A/D related to the PIS true up plant accruals, 4) the A/D related to PIS reclassifications, 5) the A/D related to removal of duplicate invoices from PIS, 6) the A/D related to other PIS reclassifications, and 7) the A/D related to PIS added in the wrong years.

RUCO recommends an A/D balance of $13,563,675 which is $15,361 greater than the Company. The difference in balances is made up of PTY related retirement A/D, PTY plant related A/D (one-half year of A/D on PTY plant), and a separate RUCO reconciliation A/D adjustment.

5. Customer Meter Deposits. The Company recommends a Customer Meter Deposit balance of $95,892. Staff recommends the same balance. RUCO recommends a balance of $81,661 which is $14,231 less than the Company. RUCO's recommended balance is based upon a 13-month average of customer meter deposits. The Company disagrees with RUCO because a 13-month average creates a rate base mismatch.

Revenue and Income Statement Issues – Water Division

1. Salaries and Wages. The Company proposes Salaries and Wages expense of $1,069,839. Staff proposes the same level of expense. RUCO recommends Salaries and Wages expense of $1,007,640 which is $62,199 lower than the Company. RUCO recommends the removal of employee achievement pay. Mr. Sorenson's rebuttal and rejoinder testimony argue why RUCO's adjustment should be rejected.

2. Management Services – U.S. Liberty Water. The Company proposes Management Services – U.S. Liberty Water expense of $1,250,586. Staff recommends an expense level of $1,233,746 which is $16,840 lower than the Company. RUCO recommends an expense level of $1,128,866, which is $121,720 lower the Company. The Company disagrees with the Staff and RUCO recommended levels of this expense.

3. Management Services – Corporate. The Company proposes Management Services – Corporate expense of $781,023. Staff recommends the same level of this expense. RUCO recommends an expense level of $680,088, which is $100,935 lower the Company. The Company disagrees with the RUCO recommended level of this expense. Mr. Krygier's rebuttal and rejoinder testimonies argue why RUCO's adjustment should be rejected.

4. Water Testing. The Company proposes Water Testing expense of $44,880. RUCO recommends the same level of this expense. Staff recommends an expense level of $62,478, which is $17,598 higher than the Company. The Company disagrees with the Staff recommended level of this expense.

5. Security Deposit Interest Expense. The Company proposes Security Deposit Interest Expense of $5,931. Staff recommends the same amount. RUCO recommends interest expense of $4,848. The Company believes the Staff recommendation, which is based on a 13-month average, provides a better match to the 13-month average balance of Customer Security Deposits balance included in rate base.

Revenue and Income Statement Issues – Wastewater Division

1. Salaries and Wages. The Company proposes Salaries and Wages expense of $1,168,151. Staff proposes the same level of expense. RUCO recommends Salaries and Wages expense of $1,091,720, which is $76,431 lower than the Company. RUCO recommends the removal of employee achievement pay. Mr. Sorensen's rebuttal and rejoinder testimonies argue why RUCO's adjustment should be rejected.

2. Management Services – U.S. Liberty Water. The Company proposes Management Services – U.S. Liberty Water expense of $1,459,117. Staff recommends an expense level of $1,436,660, which is $22,457 lower than the Company. RUCO recommends an expense level of $1,345,306, which is $113,811 lower the Company. The Company disagrees with the Staff and RUCO recommended levels of this expense.

3. Management Services – Corporate. The Company proposes Management Services – Corporate expense of $698,951. Staff recommends the same level of this expense. RUCO recommends an expense level of $600,409, which is $98,542 lower the Company. The Company disagrees with the RUCO recommended level of this expense.

4. Water Testing. The Company proposes Water Testing expense of $30,657. RUCO recommends the same level of this expense. Staff recommends an expense level of $34,388, which is $3,731 higher than the Company. The Company disagrees with the Staff recommended level of this expense.

5. Security Deposit Interest Expense. The Company proposes Security Deposit Interest Expense of $5,346. Staff recommends the same amount. RUCO recommends interest expense of $5,467. The Company believes the Staff recommendation, which is based on a 13-month average, provides a better match to the 13-month average balance of Customer Security Deposits balance included in rate base.

Rate Design and Proposed Rates – Water Division

The Company proposes an inverted tier rate design that consists of a four tier design for smaller metered residential customers and a two tier design for smaller metered commercial and irrigation customers as well larger metered customers (all classes). Staff and RUCO also propose a rate design that consists of a four tier design for smaller metered residential customers and a two tier design for smaller metered commercial and irrigation customers as well larger metered customers (all classes).

One area of disagreement is that Staff and the RUCO provide a low monthly minimum and first tier commodity rate for the smaller residential customers. This rate design shifts revenue recovery away from the smaller residential customers to the larger metered customers. Further, their designs shift revenue recovery away from the monthly minimums to the commodity rates. Under Staff's rate design the average 3/4 inch metered residential customers (the largest customer class) will see a rate decrease of about 8percent. Contrast this with Staff's recommended overall revenue increase of 9.51 percent. Also under the Staff rate design, the 3/4 inch residential customers will see a rate decrease up to 12,000 gallons of usage. Under RUCO's rate design the average 3/4 inch metered residential customers (the largest customer class) will see a rate small rate increase of about 1.2 percent. Contrast this with RUCO's recommended overall revenue increase of 9.53 percent. The Company believes the RUCO and Staff rate designs send the wrong conservation message to customers and create significant revenue instability for the Company.

The Company's rate design provides for about 40.5 percent of the metered revenue being recovered from the monthly minimums. The Staff and RUCO rate designs provide for significantly less at 32.2 percent and 35.6 percent, respectively. As a result of lower revenue recovery from the monthly minimums, the Staff and RUCO commodity rates are higher than they otherwise would be in order to recover the revenues that are not being recovered in the monthly minimums. Since the commodity revenue depends on water sales, conservation will cause greater revenue loss when more of the revenue is recovered from the commodity rates. The Company believes its rate design balances the goal of conservation with revenue stability. Revenue stability will help the Company actually recover its cost of service and help to keep future rate increases lower.

The Company has pointed out that the Staff rate design creates billing cross-overs and will result in customers paying less under the Staff rates than they currently pay. Staff has not explained why these issues are acceptable.

Under the Company's water division proposed rates, a typical 3/4 inch metered residential customer would experience an increase of $3.91 (about 16.08 percent) from $24.33 per month to $28.07 per month.

Rate Design and Proposed Rates – Wastewater Division

The Company's rate design is the same basic rate design currently in effect, which primarily reflects a flat rate design for residential and commercial customers. The rate design does contain some charge per rated gallon per day features. Both Staff and RUCO propose rate designs similar to the Company.

At the Company's proposed revenue level, rates will increase by approximately 5.2 percent for residential and commercial customers.

Under the Company's wastewater division proposed rates, a typical residential customer would experience an increase of $2.01 (about 5.16 percent), from $38.99 per month to $41.00 per month.

GREG SORENSEN

Summary of Pre-Filed Testimony

Liberty Utilities (Litchfield Park Water & Sewer) Corp.
SW-01428A-13-0042, W-01427A-13-0043

Greg Sorensen--Summary of Prefiled Testimony

Mr. Sorensen submitted pre-filed Direct Testimony, Rebuttal Testimony and Rejoinder Testimony in this case. Summaries of Mr. Sorensen's pre-filed testimonies are set forth below.

I. BACKGROUND

Mr. Sorensen is employed by Liberty Utilities ("Liberty") as President. Liberty is the parent company of what is now known as Liberty Utilities (Litchfield Park Water & Sewer) Corp. ("LPSCO" or "Company"). Liberty manages and operates water and sewer utilities in Arizona, Texas, Missouri, Arkansas and Illinois. Mr. Sorensen is responsible for Liberty's water and sewer operations in Texas, Missouri, Illinois and Arizona. In Arizona, he is responsible for the daily operations, financing and administration of all the utilities, including LPSCO.

II. DIRECT TESTIMONY

A. Overview of LPSCO and Reasons for the Rate Case

As explained by Mr. Sorensen, LPSCO provides services to approximately 16,802 water and 16,161 wastewater customers. Mr. Sorensen describes and explains the Company's water and wastewater systems.

The Company's current rates were approved in Decision No. 72026 (December 10, 2010) and became effective on December 1, 2010. These rates were based on a test year ending September 30, 2008. Because the Company is utilizing a test year ending December 31, 2012 in this filing, it is just over four years between test years. Mr. Sorensen explains the reasons for LPSCO's rate filing. First, some of LPSCO's operating expenses have increased, including property taxes and depreciation. Second, the Commission has, in the past, expressed concern that some of Liberty's utilities waited too long to file rate cases.

Third, during the last rate case, the Commission granted an 8.01% Return On Equity (ROE) for LPSCO. That ROE was the lowest ROE granted in the nation during and since that time period. Mr. Sorensen's testimony demonstrates the impacts of such a low ROE for LPSCO. A return on equity issued by the Commission should represent a rate that is comparable to other similar investments in similar markets. Simply put, the 8.01% ROE for LPSCO was not comparable to other similar investments. That low ROE has made it difficult for LPSCO to attract capital and make investments in utility infrastructure. Mr. Sorensen explains that it is critical for LPSCO to get an ROE granted that is competitive in the U.S. marketplace.

Finally, Mr. Sorensen shows that LPSCO has experienced an overall decline in water usage per residential customer since the last rate case. That decline was not anticipated in the rate design during the prior case, even though a tiered rate design was implemented to encourage water conservation, going from two to three tiers. That declining water usage has had a negative impact on the Company's revenue and, in turn, earnings. Mr. Sorensen demonstrates the need for rate increases to account for revenue erosion from declining water usage and the rate design from LPSCO's last rate case.

B. System Improvements

As testified by Mr. Sorensen, since the last rate case, LPSCO has replaced the roof on its Town Well Reservoir, expanded the Palm Valley Water Reclamation Facility (PVWRF) from 4.1MGD to 5.1MGD, and continued to invest available capital into the ongoing maintenance of the water and wastewater systems, including, but not limited to items such as collection and distribution mains, meter replacements, additional safety equipment, pump replacements and betterments, and SCADA improvements and expansion in coverage. Mr. Sorensen also supports and explains the PVWRF Equalization Basin Project as post-test year plant.

Mr. Sorensen's testimony demonstrates the costs of and need for those system improvements and costs. His testimony establishes that those improvements all should be included in LPSCO's rate base in this case.

C. Operating Expenses

Mr. Sorensen's testimony describes significant changes in operating expenses that have occurred since the last rate case, including an increase in property taxes of $750,000 and increased depreciation expense resulting from the Company's significant investments in the water and wastewater systems. Mr. Sorensen also explains and demonstrates the Company's significant efforts and cost savings measures to reduce operating expenses.

D. Compliance, Conservation and Customer Service

As testified by Mr. Sorensen, LPSCO is in compliance with all ADEQ, ADWR, ADOR, and ACC rules and regulations regarding the provision of water and wastewater services in the State of Arizona. LPSCO's water loss rate is 9.2%--below the 10% guidance from both ADWR and Commission Staff. Mr. Sorensen demonstrates the Company's efforts to address water conversation, including voluntarily committing to 10 BMPs. His testimony also highlights the Company's significant community/customer outreach efforts and programs. Mr. Sorensen's testimony clearly demonstrates LPSCO's and Liberty's commitment to provide safe and reliable utility service in the best interests of customers and the community.

II. REBUTTAL AND REJOINDER TESTIMONY

In his rebuttal and rejoinder testimonies, Mr. Sorensen addresses RUCO's proposed disallowance of Achievement Pay (RUCO Adjustment No. 14). On that issue, RUCO proposed disallowing $138,887 and $128,034 of achievement pay for the water and wastewater divisions, respectively. RUCO (Mr. Mease) offers three separate reasons for its recommended adjustment: (1) both shareholders and customers gain from incentive programs; (2) future cost levels are uncertain; and (3) precedent supports an equal sharing.

In rebuttal, Mr. Sorensen demonstrates that RUCO's proposed disallowance is not supported for any of those reasons and should be rejected. For starters, Mr. Sorensen shows that the costs were actually incurred and expensed during the test year as part of Liberty's normal salaries and wages expense and, therefore, are a direct cost of utility service. Mr. Sorensen also demonstrates that Liberty's Achievement Pay is based on employee performance in serving customers and, therefore, directly benefits customers receiving utility service. Mr. Sorensen shows that achievement pay is an important tool in recruiting employees to the Company.

Finally, Mr. Sorensen shows that Achievement Pay is a necessary and recurring expense that helps LPSCO provide quality utility service to customers. He explains why Achievement Pay should not be shared between shareholders and customers. He also explains why the test year amount is a perfectly valid number to use in setting rates.

In rejoinder, Mr. Sorensen illustrates that RUCO did not refute his rebuttal testimony that Achievement Pay is a known and measurable, recurring expense that benefits customers. In short, Mr. Sorensen demonstrates clearly that RUCO does not provide any valid support of its disallowance relating to Achievement Pay.

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